

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 ISO-00 L-03 FRB-03 OMB-01
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R 061130Z JUN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 6838
INFO AMEMBASSY BRUSSELS
AMEMBASSY OTTAWA
AMEMBASSY TOKYO

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USEEC

E.O. 11652: N/A
TAGS: ETRD, EAGR, ICCA
SUBJECT: COCOA: FURTHER COMMENTS ON U.S. PROPOSAL
FOR REVISION OF THE INTERNATIONAL COCOA
AGREEMENT (ICCA)

REF: (A) LONDON 8050; (B) STATE 117952; (C) STATE
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1. EMBOFF CONTINUED CONSULTATIONS ON U.S. OUTLINE FOR
A NEW INTERNATIONAL COCOA AGREEMENT (ICCA), CONSULTING
WITH THE U.K. (JAMES YOUNG MFA), JAPANESE (HATA AND
NODA), WITH FRENCH (SCHWEISGUTH) AND U.K. (HACKMAN,
EXECUTIVE DIRECTOR OF ICCO). CANADIAN (BLUM) ALSO CAME
BACK WITH CANADIAN COMMENTS ON THE U.S. OUTLINE.

2. CANADA. CANADA SUPPLIED THE FOLLOWING COMMENTS ON
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THE U.S. PAPER:

-- A. CANADA LOOKS FORWARD TO THE FURTHER ELABORATION
OF THE U.S. PROPOSALS.

-- B. THE U.S. APPROACH SIMPLIFIES MARKET INTERVENTION
UNDER THE ICCA.

-- C. CANADA HAS SOME DOUBTS, AS EXPRESSED IN THE 1975 COCOA CONFERENCE, ON THE PRACTICALITY AND DESIRABILITY OF MOVING TO A PURE BUFFER STOCK APPROACH.

-- D. CANADA HAS SOME UNCERTAINTIES OVER THE CONCEPT THAT A FINITE BUFFER STOCK OR ACQUISITION LIMITS ARE TENABLE. CANADA IS UNSURE THAT SUCH LIMITS WOULD BE CAPABLE OF WITHSTANDING THE PRESSURES OF DIVERSE MARKET CONDITIONS.

-- E. IT IS NOT UNREASONABLE TO EXPECT A SIZABLE SURPLUS TO OCCUR AT SOME POINT, AND WITHOUT SOME EXPORT CONTROL DISCIPLINE, THE EXPORTER REACTION IS LIKELY TO BE TO SEEK AN INCREASE IN THE BUFFER STOCK CAPACITY, WITH CONSEQUENT FINANCIAL IMPLICATIONS.

-- F. THE POSSIBILITY OF USING SUPPLEMENTARY RATHER THAN COMPLIMENTARY EXPORT QUOTAS MERITS FURTHER CONSIDERATION.

-- G. THE ATTACHMENT OF PRODUCERS TO EXPORT QUOTAS IS NOT TO BE PUT ASIDE LIGHTLY.

-- H. THE IDEA OF REDUCING THE PRICE RANGE OR OPERATIONAL BUFFER STOCK ZONE WHEN BUFFER STOCK ACCUMULATIONS LIMITED OFFICIAL USE

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GET TOO HIGH MAY NOT SERVE CONSUMER INTERESTS SINCE IT WOULD REDUCE THE VALUE OF THE COCOA ALREADY HELD IN THE BUFFER STOCK, WITH A CONSEQUENT LOSS OF MONEY.

-- I. BRAZIL HAS LONG DEMANDED THE BUFFER STOCK BE AUTHORIZED TO BUY SEMI-FINISHED COCOA PRODUCTS. THE BUFFER STOCK APPROACH OUTLINED BY THE U.S. WOULD OPEN UP THE WHOLE ARGUMENT AGAIN, IN SPITE OF THE FACT MANY ICCA MEMBERS AND THE CURRENT BUFFER STOCK MANAGER DOUBT THE USEFULNESS OF INCLUDING SEMI-PROCESSED FORMS.

--J. CANADA LIKES PARAGRAPH H OF THE U.S. PAPER.

3. ICCA EXECUTIVE DIRECTOR HACKMAN. HACKMAN NOTED THAT IN ORDER TO CAPTURE THE SECULAR PRICE TREND IN COCOA, WHICH HE ASSUMED THE U.S. INTENDED TO DO IN ITS PROPOSAL, ALL NEGOTIATORS WOULD HAVE TO ACCEPT A PRICE RANGE WHICH WAS REASONABLE ENOUGH TO CAPTURE THE TREND, AT WHATEVER LEVEL IT MAY BE. HACKMAN NOTED THE PROBABILITY THAT THE BUFFER STOCK WOULD HAVE TO OPERATE IN THE FUTURE MARKET TO DO AN EFFECTIVE JOB. AFTER OPENING WITH THE ABOVE HACKMAN POINTED OUT THAT THE VASTLY

INCREASED POWERS GIVEN THE BUFFER STOCK MANAGER IN THE
U.S. SCHEME REQUIRED A CLEAR DEFINITION OF THE EXECUTIVE

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DIRECTOR'S SUPERVISORY RESPONSIBILITIES OF THE BUFFER
STOCK MANAGER. HACKMAN SUGGESTED THE MANAGER REPORT TO
THE EXECUTIVE DIRECTOR ON MOST POLICY AND FUNDAMENTAL
OPERATIONAL ISSUES AND THAT SOME SORT OF ADVISORY BODY
MIGHT BE ESTABLISHED, AS IN THE SUGAR ORGANIZATION, IN
ORDER TO FURTHER SUPERVISE THE MANAGER. HACKMAN HAD
ALREADY DISTRIBUTED COPIES OF THE U.S. IDEAS FLOATED
AT THE 1975 CONFERENCE TO MEMBERS, ANTICIPATING THE
FUNDAMENTALS OF THE U.S. APPROACH. HE PROPOSES THE
AD HOC WORKING PARTY MAKE A RECOMMENDATION TO THE COCOA
COUNCIL IN JULY, WHICH COULD THEN AUTHORIZE 2 PREPARATORY
MEETINGS WHICH WOULD PREPARE A DRAFT FOR NEGOTIATIONS.
HE FORESEES NEGOTIATIONS IN JANUARY OR FEBRUARY/MARCH
1979.

4. THE UNITED KINGDOM (JAMES YOUNG OF THE MINISTRY OF
FOOD AND AGRICULTURE). SPEAKING AS A CHAIRMAN OF THE
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ICCO EXECUTIVE COMMITTEE AND AS MFA SPOKESMAN ON COCOA
YOUNG MADE THE FOLLOWING POINTS:

-- A. THERE IS A GROWING BODY OF EC OPINION THAT A
RENEGOTIATION WILL BE NECESSARY. AS EXECUTIVE COMMITTEE
CHAIRMAN, YOUNG FEELS RENEGOTIATION IS NECESSARY FOR
POLITICAL AND TECHNICAL REASONS.

-- B. TECHNICALLY THE ICCA IS A MUSEUM PIECE. IT NEEDS
MODIFICATION -- BUT ARTICLE 75 (ON AMENDMENT) MAKES
AMENDMENT TOO CUMBERSOME.

-- C. PRODUCERS WANT A RENEGOTIATION. UNLESS A
SPECIAL VOTE WERE TAKEN TO EXTEND THE ICCA IT MIGHT
DISAPPEAR AND THE \$170 MILLION WHICH WILL SOON BE IN
THE BUFFER STOCK FUND WOULD DISAPPEAR. POLITICALLY IT
IS BETTER TO START OFF WITH LIGHTNESS AND HUMOR AND ALLOW
CONFRONTATION FOR THE NEGOTIATING CONFERENCE.

-- D. ALTHOUGH PRODUCERS HAVE NOT PUT FORWARD WHAT
THEY WANT, THE U.S. PAPER MOVES US ALONG TOWARD RE-
NEGOTIATION.

-- E. THE EC WILL NOT DECIDE ON ITS POSITION ON THE
NEED FOR RENEGOTIATION UNTIL JULY. ALTHOUGH MANY OPPOSE
RENEGOTIATION, ONCE THE U.S. AND PRODUCER PAPERS ARE
RECEIVED THERE WILL BE A DECISION IN JULY TO RE-
NEGOTIATE.

-- F. YOUNG NOTED THE U.S. PROPOSAL SIMPLIFIES THE
ICCA, REMOVING EXPORT QUOTAS, THE NEED FOR WHICH HE COM-
PARED TO THE HUMAN APPENDIX.

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-- G. HE AGREES WITH THE U.S. APPROACH IN CONCEPT.

-- H. HE QUESTIONS WHY THE RANGE SHOULD BE 25 PERCENT
ABOVE AND 25 PERCENT BELOW THE MID POINT. WHY NOT SOME
OTHER NUMBER?

-- I. PRODUCERS WANT AN ICCA WHICH WILL DO SOMETHING,
NAMELY SLOW THE PRICE DECLINE. THIS GIVES CONSUMERS
THE OPPORTUNITY TO GET SOMETHING.

-- J. HE PROMISED TO SEND THE PAPER TO BRUSSELS,
NOTING CONSUMERS MUST STICK TOGETHER. HE STRESSED THAT
THE UK WOULD BE SQUARELY BEHIND THE EC POSITION, EVEN
IF THE UK DISAGREED.

-- K. YOUNG NOTED THE INCLUSION OF PROCESSED FORMS
MIGHT BE BENEFICIAL TO CONSUMERS, BUT HE WOULD CONSULT
THE UK COCOA AND CHOCOLATE TRADE BEFORE COMMENTING
FURTHER ON THAT POINT.

5. JAPAN. MESSRS HATA AND NODA THANKED US FOR MAKING
THAM PART OF THE FIRST GROUP OF COUNTRIES CONSULTED ON
THE U.S. PROPOSAL. THEY PROMISED TO IMMEDIATELY CABLE
IT BACK TO TOKYO, BUT DID NOT EXPECT TO HAVE FURTHER
COMMENT BEFORE THE START OF THE AD HOC SESSION.

6. FRANCE. JEAN LUC SCHWEISGUTH, LONDON COMMODITY
SPOKESMAN FOR THE FRENCH, NOTED HE ALREADY HAD HEARD
OF THE U.S. PROPOSAL FROM PARIS, WHICH HAD GOTTEN IN-
FORMATION FROM THE FRG. AFTER READING THE PAPER HE
NOTED FRANCE BACKS THE U.S. PROPOSAL WITH TWO RESERVA-
TIONS, ONE ON THE NEED FOR A QUOTA SAFETY NET, AND TWO
ON THE WIDTH OF THE PRICE ZONE IN WHICH THE BUFFER
STOCK WOULD OPERATE. MORE SPECIFICALLY HE NOTED:

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-- A. FIFTY PERCENT AROUND THE MID-POINT IS TOO WIDE.

-- B. HE LIKES THE CONCEPT OF A PRICE RANGE SHIFT
DOWNWARD IF THE STOCK BECOMES TOO LARGE, BUT RECOGNIZES
PRODUCERS WOULD NOT ALLOW A TWO-THIRDS DISTRIBUTED
MAJORITY VOTE TO SUCCEED ON SUCH AN ISSUE. HE SAID THE
IDEA MAKES SENSE, SO CONSUMERS SHOULD FIGHT FOR THE
CONCEPT.

-- C. PARAGRAPH H IS SPLENDID BUT IMPRACTICAL. HE
COMPARED IT TO THE INTERNATIONAL TIN AGREEMENT,
ECONOMIC AND PRICE REVIEW PANEL, WHICH HE CLAIMED PRO-
DUCED LITTLE BUT CONFRONTATION.

-- D. EXPORTERS ARE PREOCCUPIED OVER A GUARANTEED
MINIMUM. GHANA AND NIGERIA WILL PRESS FOR BASIC
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QUOTAS. THE U.S. PROPOSAL COULD BE SUSTAINED IF CON-
SUMERS BACK THE PROJECT AND AN ADDITIVE QUOTA IS IN-
CLUDED.

-- E. ON THE QUESTION OF RENEGOTIATION ITSELF,
SCHWEISGUTH NOTED THAT FRANCE IS THE PRINCIPAL PROPONENT
OF RENEGOTIATION, WHILE THE FRG, DUTCH AND ITALIANS ARE
AGAINST RENEGOTIATION. THEY DO NOT WANT TO HAVE TO
REQUEST THEIR PARLIAMENTS TO RATIFY ANOTHER ICCA BEFORE
THE CURRENT ONE HAS EVEN BEEN TRIED OUT IN THE MARKET
PLACE.

7. ALL PARTIES LOOK FORWARD TO A FURTHER DETAILED
FLESHING OUT OF THE U.S. OUTLINE.

BREWSTER

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